by any Extending DIP Lender or New DIP Lender and any amounts funded by any Extending DIP Lender or any New DIP Lender into its Tranche B Credit-Linked Account, each on the Restatement Effective Date as contemplated hereby, shall be as set forth in Schedule 23.1 attached hereto and (iii) the participations of the Extending DIP Lenders and the New DIP Lenders in outstanding Letters of Credit under the Amended and Restated DIP Credit Agreement, after giving effect to any participations in Letters of Credit assumed by the Extending DIP Lenders or the New DIP Lenders, in each case on the Restatement Effective Date as contemplated hereby, shall be as set forth in Schedule 23.2 attached hereto.

(d) If any prepayment of Loans is made pursuant to Section 23(c), the Borrowers agree to reimburse each applicable DIP Lender, including each Exiting DIP Lender, for any funding losses incurred in connection therewith that are required to be paid by the Loan Parties pursuant to the terms of the Existing DIP Credit Agreement.

(e) Subject to the terms and conditions hereof, the transactions contemplated by this Section 23 shall be consummated on the Restatement Effective Date on the terms set forth herein, notwithstanding any term in the Existing DIP Credit Agreement, including without limitation, any term set forth in Article 2 thereof, that would otherwise prohibit or restrict the consummation of such transactions on the terms set forth herein, with all such terms and conditions that would otherwise prohibit or restrict the consummation of the transactions contemplated hereby being waived.

Section 24. *Amendment of the Amended and Restated Security and Pledge Agreement.* Section 15(a) of the Amended and Restated Security and Pledge Agreement shall be amended by adding the following proviso immediately after the "finally" clause contained therein:

> "*provided* that any cash held as collateral security for a Loan Party's Reimbursement Obligations with respect to any Letter of Credit outstanding after the Maturity Date in accordance with the first sentence of Section 2.04(d) of the Amended and Restated DIP Credit Agreement ("**Extended L/C Obligations**") shall be applied *first* to pay the unpaid interest accrued on the Secured Obligations of such Loan Party constituting Extended L/C Obligations, until payment in full of all such interest shall have been made, *second* to pay the unpaid principal of such Extended L/C Obligations (or provide for the payment thereof pursuant to Section 15(b)), until payment in full of the principal of all such Extended L/C Obligations of such Loan Party shall have been made (or so provided for), and thereafter shall be applied in accordance with the provisions set forth above."

Section 25. *Representations of Loan Parties*. Subject to the terms of Section 3.15 of the Existing DIP Credit Agreement, each Loan Party represents and warrants that (i) the representations and warranties of the Loan Parties set forth in the Loan Documents will be true and correct in all material respects on and as of the Restatement Effective Date with the same effect as if made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date (which shall be true and correct in all material respects on and as of such earlier date) and (ii) no Default will have occurred and be continuing on such date.

Section 26. *Governing Law*. THIS AMENDED AND RESTATED DIP CREDIT AGREEMENT SHALL IN ALL RESPECTS BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED WHOLLY WITHIN SUCH STATE AND THE BANKRUPTCY CODE.

Section 27. *Counterparts; Effectiveness*. This Amended and Restated DIP Credit Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Amended and Restated DIP Credit Agreement shall become effective on the date (the "**Restatement Effective Date**") when:

(a) the Administrative Agent shall have received from each of the Loan Parties and the DIP Lenders (other than any Exiting DIP Lender) a counterpart hereof signed by such party or facsimile or other written confirmation (in form satisfactory to the Administrative Agent) that such party has signed a counterpart hereof (and the DIP Lenders as to which the Administrative Agent shall have received such counterparts or such confirmation shall constitute the Super-Majority DIP Lenders under the Existing DIP Credit Agreement as in effect immediately prior to the effectiveness of this Amended and Restated DIP Credit Agreement);

(b) the Administrative Agent shall have received an opinion of Willkie Farr & Gallagher LLP, counsel for the Loan Parties, dated the Restatement Effective Date in form and substance reasonably satisfactory to the Co-Lead Arrangers;

(c) all fees payable pursuant to the terms of that certain fee letter, dated May __, 2004, among certain of the Loan Parties and certain of the financial institutions party hereto shall have been paid in full;

(d) any Commitment Fee which is accrued and unpaid (whether due to an Exiting DIP Lender or an Extending DIP Lender) as of the Restatement

Effective Date under the terms of the Existing DIP Credit Agreement shall have been paid in accordance with Section 2.22 thereof;

(e) any fee payable in respect of any issued and outstanding Letter of Credit (whether due to an Exiting DIP Lender or an Extending DIP Lender) that is accrued and unpaid as of the Restatement Effective Date under the terms of the Existing DIP Credit Agreement shall have been paid in accordance with Section 2.22 thereof;

(f) the Administrative Agent shall have received from each of the Loan Parties and the Collateral Agent a counterpart of Amendment No. 1 to the Amended and Restated Security and Pledge Agreement, dated the Restatement Effective Date, which sets forth the provisions set forth in Section 24 hereof; and

(g) the DIP Lenders shall have received a certified copy of the Extension Order, reasonably acceptable to the Co-Lead Arrangers, which (i) shall have been entered with the consent or non-objection of a preponderance of the Pre-Petition Lenders (as determined in the reasonable discretion of the Co-Lead Arrangers after consultation with the Parent) upon an application or motion of the Loan Parties reasonably satisfactory in form and substance to the Co-Lead Arrangers, on such prior notice to such parties (including the Pre-Petition Lenders) as may in each case be reasonably satisfactory to the Co-Lead Arrangers, (ii) shall be in full force and effect and (iii) shall not have been stayed, reversed, modified or amended in any respect;

provided that the amendments set forth in Sections 8, 15(a) and 15(c) shall not become effective until the Administrative Agent shall have received executed counterparts hereof (or written confirmations thereto) from Initial DIP Lenders having Tranche A Commitments in excess of 66 2/3% of the Tranche A Commitments held by the Initial DIP Lenders that are Extending DIP Lenders.

The Administrative Agent shall promptly notify the Loan Parties, the DIP Lenders, including any Exiting DIP Lender, of the effectiveness of this Amended and Restated DIP Credit Agreement, and such notice shall be conclusive and binding on all parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Amended and Restated DIP Credit Agreement to be duly executed as of the date first above written.

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	)	Chapter 11 Cases
Adelphia Communications Corporation, et al.,	)	Case No. 02-41729 (REG)
Debtors.	)	(Jointly Administered)

DEBTORS' MOTION PURSUANT TO 11 U.S.C. §§ 105, 361, 362, 363, 364, 503(b) AND 507, AND RULES 2002, 4001 AND 9014 OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE FOR ENTRY OF INTERIM AND FINAL ORDERS: (I) AUTHORIZING DEBTORS TO (A) OBTAIN POSTPETITION FINANCING AND (B) GRANT SENIOR LIENS, JUNIOR LIENS AND SUPERPRIORITY ADMINISTRATIVE EXPENSE STATUS; (II) APPROVING USE OF CASH COLLATERAL; (III) GRANTING ADEQUATE PROTECTION; AND (IV) SCHEDULING FINAL HEARING ON POSTPETITION FINANCING AND APPROVING FORM AND MANNER OF NOTICE THEREOF

Adelphia Communications Corporation ("ACC") and the other above-captioned debtors and debtors in possession (collectively, the "Debtors" or "Adelphia"), by counsel, hereby file this Motion Pursuant to 11 U.S.C. §§ 105, 361, 362, 363, 364, 503(b) and 507, and Rules 2002, 4001 and 9014 of the Federal Rules of Bankruptcy Procedure for Entry of Orders: (I) Authorizing Debtors to (A) Obtain Postpetition Financing and (B) Grant Senior Liens, Junior Liens and Superpriority Administrative Expense Status; (II) Approving Use of Cash Collateral; (III) Granting Adequate Protection; and (IV) Scheduling Final Hearing on Postpetition Financing and Approving Form and Manner of Notice Thereof (the "Motion"). In support of this Motion, the Debtors respectfully represent as follows:

I. PRELIMINARY STATEMENT

A. General Request

1. By this Motion, the Debtors seek approval of, among other things, postpetition financing (the "DIP Financing") on an interim and final basis pursuant to the terms

and conditions of: (i) that certain Credit and Guaranty Agreement (the "DIP Credit Agreement"), a copy of which (without Exhibits and Schedules) is attached hereto as Exhibit A; (ii) the Interim Order (defined below), a copy of which is attached hereto as Exhibit B; and (iii) the balance of the Loan Documents (as defined in the Interim Order) in substantially the form to be filed with the Court prior to the Final Hearing (defined below).[1]

2. As described in further detail below, the DIP Financing provides for financing by a syndicate of banks and other financial institutions (collectively, the "DIP Lenders") arranged by J.P. Morgan Securities Inc. and Salomon Smith Barney Inc., and administered by JPMorgan Chase Bank in the aggregate principal amount of up to $1.5 billion for use by the Debtors to fund, in combination with cash generated from operations, their operating, working capital and capital expenditure needs during the course of these chapter 11 cases.

3. As more fully set forth below and in the DIP Credit Agreement, the DIP Financing will be extended to the Debtors on a segregated, borrowing group basis that will recognize seven separate borrowing groups (collectively, the "Borrowing Groups") and impose separate borrowing limits for each of the Borrowing Groups. Six of the seven Borrowing Groups will correspond to and nearly replicate the prepetition structure of the Debtors' borrowings under the Debtors' six Prepetition Credit Facilities (defined below). The DIP Financing obligations within those Borrowing Groups will be joint and several within each Borrowing Group, but several as between Borrowing Groups. The seventh Borrowing Group under the DIP Financing (the "Joint and Several Borrowing Group") will consist of those Debtor entities that are not

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[1] Upon the filing of the Loan Documents with this Court, the Debtors, upon written request, will make copies available to all parties receiving notice of the Final Hearing as contemplated by paragraph 77 of this Motion.

borrowers, pledgors and/or guarantors under any of the Prepetition Credit Facilities. The DIP Financing obligations of the Debtors within the Joint and Several Borrowing Group will be joint and several both within the Joint and Several Borrowing Group and among all the other Borrowing Groups.

4. As further detailed below, in connection with the DIP Financing, the Debtors will modify their cash management system to implement a cash management protocol (the "Cash Management Protocol") under which, among other things, (i) the actual DIP Financing borrowings utilized by the respective Borrowing Groups and (ii) the actual cash generated and/or utilized by the respective Borrowing Groups will be reconciled to ensure that such borrowings and utilizations are properly accounted for and reflected as between and among the respective Borrowing Groups.

B. Interim Borrowing Needs

5. The DIP Lenders have agreed to make up to $500 million available to the Debtors on an interim basis subject to entry of the Interim Order (defined below). Accordingly, pending the Final Hearing, the Debtors request that they be permitted to incur indebtedness of up to $500 million (inclusive of letters of credit) in DIP Financing (the "Interim DIP Financing") in order to fund the Debtors' immediate operating, working capital, capital expenditure, general corporate, letter of credit and bonding needs. With respect to the Interim DIP Financing being made available, each Borrowing Group, subject to the $500 million maximum being made available, will be able to utilize up to $150 million of the Interim DIP Financing, except for the Parnassos Borrowing Group and the Joint and Several Borrowing Group, each of which will shall be limited to up to $50 million of Interim DIP Financing.

6. Importantly, the Interim DIP Financing, in combination with the Debtors' use of unencumbered cash and Cash Collateral (defined below), also will be used for payment of

certain outstanding amounts authorized by the Bankruptcy Court to be paid pursuant to "first day" orders (including prepetition amounts owing to the Debtors' employees). The Interim DIP Financing will further be used for adequate protection payments to the Prepetition Lenders in consideration for the priming of their liens by the DIP Financing, for the use of the Cash Collateral of certain of the Prepetition Lenders and for the imposition of the automatic stay.

C. Proposed Security and Superpriority Administrative Expense Status

7. The Debtors propose that the obligations of each individual Loan Party[2] under the DIP Financing be secured as follows:

- subject to the Carve-Out, pursuant to section 364(c)(2) of the Bankruptcy Code, by a perfected first priority Lien on (x) with respect to any Loan Party other than a Holding Company Guarantor, all unencumbered property of such Loan Party other than Excluded Property and any amounts that cash collateralize any Letter of Credit issued for the account of such Loan Party (if any) or the Unfunded Borrowing Limit of such Loan Party (if any) and (y) with respect to any Loan Party that is a Holding Company Guarantor, all unencumbered Equity Interests (other than Excluded Property) of any direct Subsidiary of such Holding Company Guarantor and all Holding Company Specified Assets of such Holding Company Guarantor;

- subject to the Carve-Out, pursuant to section 364(c)(3) of the Bankruptcy Code, by a perfected junior Lien on (x) with respect to any Loan Party other than a Holding Company Guarantor, all property of such Loan Party that is subject to valid and perfected liens in existence as of the Petition Date or to valid Liens in existence as of the Petition Date that are perfected subsequent to the Petition Date as permitted by sections 546(b) and 362(b)(18) of the Bankruptcy Code (other than the property (if any) that is subject to any Primed Liens which Liens shall be primed by the Priming Liens) and (y) with respect to any Loan Party that is a Holding Company Guarantor, its Holding Company Specified Assets that are subject to valid and perfected liens in existence on the Petition Date or to valid Liens in existence on the Petition Date that are perfected subsequent to the Petition Date as permitted by section 546(b) and 362(b)(18) of the Bankruptcy Code (other than the property (if any) that is subject to existing Liens that secure obligations (if any) of such Holding Company Guarantor under the Prepetition Credit Facility as to which

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[2] Capitalized terms used but not otherwise defined herein have the meanings ascribed to them in the DIP Credit Agreement or the Interim Order, as applicable.

such Holding Company Guarantor is liable, which Liens shall be primed by the Priming Liens); and

- subject to the Carve-Out, pursuant to section 364(d)(1) of the Bankruptcy Code, by a perfected first priority (subject to Liens permitted under the DIP Credit Agreement, other than the Primed Liens), senior priming lien (the "Priming Liens") on all of the property of such Loan Party that is subject to any of the Priming Liens, all of which Primed Liens shall be primed by and made subject and subordinate to the perfected first priority senior liens to be granted to the Agents, the Fronting Banks and the DIP Lenders as well as the Permitted Inter-Group Debt Liens.

8. In addition, the Debtors request that the obligations incurred under the DIP Financing be granted, subject to the Carve-Out, superpriority administrative expense priority pursuant to section 364(c)(1) of the Bankruptcy Code.

D. Use of Cash Collateral and Adequate Protection

9. The Debtors further seek authority, pursuant to section 363 of the Bankruptcy Code, to continue to use Cash Collateral in which certain of the Prepetition Lenders claim an interest.

10. As adequate protection for the priming of the liens of the Prepetition Lenders and for the use of the Cash Collateral, the Debtors propose that the Prepetition Lenders receive (consistent with their rights under section 506(b) of the Bankruptcy Code) the following forms of adequate protection from the Borrowers and Guarantors in their particular Borrowing Group:

- monthly payment of an amount equal to current interest and letter of credit fees (and the payment of all interest and fees that are accrued and unpaid as of the Petition Date) at the applicable non-default base rates plus the margin applicable as of the day immediately prior to the Petition Date as specified in the respective Prepetition Credit Facilities;[3]

[3] The Interim Order and the Final Order will provide that by agreeing to accept the monthly payment of current interest, the Prepetition Lenders shall be deemed to have waived their rights to assert claims for prepetition interest at the applicable default rates under the respective Prepetition Credit Facilities.

- granting the Prepetition Lenders a superpriority claim against their particular borrowers and guarantors under the respective Prepetition Credit Facilities pursuant to section 507(b) of the Bankruptcy Code, which superpriority claim shall be immediately junior to the claims granted under section 364(c)(1) of the Bankruptcy Code to the Collateral Agent and the Intercompany Liens;

- granting the Prepetition Lenders replacement liens on the current and future assets of their particular borrowers and guarantors under the respective Prepetition Credit Facilities (including without limitation any Non-Group Intercompany Debt owed to a Borrower or Guarantor and the Intercompany Liens of such Borrower against other Borrowers or Guarantors), which replacement liens shall be immediately junior to the Priming Liens and the other liens to be granted in favor of the Collateral Agent and the Intercompany Liens;

- payment on a current monthly basis of the reasonable fees and expenses (including, without limitation, the reasonable fees and disbursements of counsel and internal and third-party consultants, including financial consultants and auditors) incurred by the respective agents under the Prepetition Credit Facilities (including any accrued and unpaid prepetition fees and expenses) and the payment on a current basis of the administration fees payable under the respective Prepetition Credit Facilities; and

- receipt by the respective agents under the Prepetition Credit Facilities of copies of financial reports provided to the Agents under the Loan Documents.

The liens and priority claims granted to the Prepetition Lenders as part of the adequate protection of their liens shall be limited to an amount equal to the diminution in value, from and after the Petition Date, of the Primed Liens as a consequence of the Priming Liens, the use of Cash Collateral and the imposition of the automatic stay.

11. In addition to the foregoing, the interests of the Prepetition Lenders will be further adequately protected by implementation of the Cash Management Protocol.

E. Immediate Need for Interim DIP Financing

12. The Debtors have an immediate need for the DIP Financing on an interim basis. The Interim DIP Financing will provide the Debtors with much needed liquidity in order to continue to operate their businesses in the ordinary course going forward. Without immediate interim approval of the DIP Financing, the Debtors shortly will be without sufficient liquidity to

meet their daily working capital, capital expenditure and other corporate needs, and will be unable to avoid immediate and irreparable harm to their estates pending a final hearing on this Motion. At this early point in the Debtors' chapter 11 cases, the Debtors urgently need interim approval of the financing provided by the DIP Financing not only to fund operations and preserve and maintain the value of the Debtors' estates, but also to instill in the Debtors' programmers, vendors, suppliers, customers and employees confidence in the Debtors' ability to meet their postpetition obligations going forward and to reorganize.

F. Specific Request for Relief

13. Therefore, the Debtors respectfully request that this Court:

(a) hold an immediate interim hearing on the Motion (the "Interim Hearing"), pursuant to Federal Rule of Bankruptcy Procedure 4001 to consider entry of an order, substantially in the form of the order attached hereto as Exhibit B (the "Interim Order"): (i) approving the DIP Financing, the Interim Order and the DIP Credit Agreement, and authorizing the Debtors to obtain Interim DIP Financing in an aggregate amount not to exceed $500 million pending a final hearing on the Motion (the "Final Hearing"); (ii) authorizing the Debtors' use of the Cash Collateral pending the Final Hearing; (iii) granting to the DIP Lenders the liens and priority status described herein pending the Final Hearing; (iv) granting to the Prepetition Lenders the forms of adequate protection described herein and in the Interim Order pending the Final Hearing; and (v) finding that the interests of the Prepetition Lenders are adequately protected pending the Final Hearing;

(b) schedule a Final Hearing pursuant to Federal Rule of Bankruptcy Procedure 4001(c) no later than 45 days from the date of entry of the Interim Order; and

(c) at the conclusion of the Final Hearing, enter an order (the "Final Order"):[4] (i) authorizing and approving the DIP Financing, DIP Credit Agreement and the Loan Documents on a permanent basis; (ii) authorizing the Debtors' continued use of Cash Collateral; (iii) granting to the DIP Lenders the liens and priority status described herein; (iv) granting to the

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[4] A copy of the Final Order, which will contain terms substantially similar to the Interim Order, shall be filed under separate cover prior to the Final Hearing.

Prepetition Lenders the adequate protection described herein and in the Final Order; and (v) finding that the interests of the Prepetition Lenders are adequately protected.

14. Because of the exigent circumstances and the nature of the relief requested, the Debtors request that the Interim Hearing on the Motion take place no later than June 28, 2002. The Debtors respectfully submit that prompt entry of the Interim Order on or before such date, is essential to avoid immediate and irreparable harm to the Debtors' estates pending the Final Hearing.

II. RELEVANT FACTS

A. Jurisdiction and Venue

15. On June 25, 2002, (the "Petition Date"), each of the Debtors filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"), together with various motions and applications seeking certain "first day" orders. No request has been made for the appointment of a trustee or examiner, and no official committee has yet been established in these cases.

16. The Debtors intend to continue in the possession of their respective properties and the management of their respective businesses as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code. Simultaneously herewith, the Debtors have filed a motion (the "Joint Administration Motion") seeking to have their chapter 11 cases consolidated for procedural purposes and jointly administered.[5]

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[5] On June 10, 2002, Century Communications Corporation ("CCC"), a wholly owned subsidiary of Arahova Communications, Inc., a Debtor herein, filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code (the "CCC Bankruptcy Case"). CCC has continued in possession of its property and the management of its business as debtor in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code. Pursuant to the Joint Administration Motion, the Debtors are seeking to consolidate the CCC Bankruptcy Case with the instant chapter 11 cases for procedural and joint administration purposes.

17. This Court has jurisdiction over this Motion pursuant to 28 U.S.C. §§ 157 and 1334. Venue is proper in this district pursuant to 28 U.S.C. §§ 1408 and 1409. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2). The statutory and rule predicates for the relief requested herein are sections 105, 361, 362, 363, 364, 503(b) and 507 of the Bankruptcy Code, and Rules 2002, 4001 and 9014 of the Federal Rules of Bankruptcy Procedure.

B. General Background

18. Adelphia is the sixth largest operator of cable television systems in the United States. Adelphia's operations primarily consist of providing telecommunications services over broadband networks, which serve to transmit large quantities of video, data and voice by way of digital or analog signals. Cable systems owned by Adelphia are located in 29 states and Puerto Rico and are organized into six strategic clusters: Los Angeles; "PONY" (Western Pennsylvania, Ohio and Western New York); New England; Florida; Virginia; and Colorado Springs. Such cable systems are located primarily in suburban areas of large and medium-sized cities within the 50 largest television markets. As of June 1, 2002, the broadband networks for the Debtors' cable systems passed in front of approximately 9.0 million homes and approximately 5.8 million basic subscribers. As of June 1, 2002, Adelphia employed approximately 15,444 full and part-time employees, of which approximately 632 employees were covered by collective bargaining agreements. Adelphia's corporate headquarters are located at One North Main Street, Coudersport, Pennsylvania 16915-1141.

19. In addition to operation of their cable television systems, the Debtors operate and/or hold interests in six (6) non-cable businesses, including: (i) wireless messaging and paging services ("Paging"); (ii) mobile telephone reseller services ("Mobile"); (iii) long distance telephone reseller services ("Long Distance"); (iv) advertising in connection with Adelphia's cable business ("Advertising"); (v) home security ("Security"); and (vi) a CLEC

business managed by ABIZ (defined below) on ACC's behalf ("CLEC" and together with Paging, Mobile, Long Distance, Advertising and Security, the "Non-Cable Businesses").

20. The predecessor cable companies to Adelphia were founded in 1952 by John J. Rigas. ACC was incorporated in 1986 by Mr. Rigas. Mr. Rigas and members of his immediate family (collectively, the "Rigas Family") own or control certain non-Debtor partnerships, corporations and limited liability companies that are engaged in the ownership and operation of cable television systems and other related and unrelated businesses (collectively, the "Rigas Entities"). In addition to their own business operations, the Debtors manage and maintain virtually every aspect of those Rigas Entities that own and operate cable television systems (collectively, the "Managed Rigas Entities"), including, but not limited to, (i) administrative functions such as cash management, billing, accounting, human resources and payroll and (ii) operational functions such as programming, advertising, sales, customer service, engineering and maintenance. As the revenues of the Managed Rigas Entities are regularly deposited into Adelphia's cash management system, the Debtors are largely reimbursed for the expenditures made on the Managed Rigas Entities' behalf. In addition, in exchange for these management services, the Debtors charge the Managed Rigas Entities a management fee which is based upon the revenue of such entities.

C. Summary of Corporate Structure

21. ACC, a Delaware corporation and the ultimate parent Debtor, owns all of the issued and outstanding shares of ACC Investment Holdings, Inc., a Delaware corporation, and ACC Operations, Inc. ("HoldCo"), a Delaware corporation. HoldCo, in turn, directly or indirectly owns, controls or holds interests in virtually all of the remaining Debtors. In addition, Olympus Communications, L.P. ("Olympus"), Arahova Communications, Inc. ("Arahova"),

FrontierVision Holdings, L.P. ("FrontierVision") and FrontierVision Operating Partners, L.P. ("FVOP") are all consolidated subsidiaries of HoldCo.

22. Until January 11, 2002, ACC owned approximately 78.4% of the outstanding stock of Adelphia Business Solutions, Inc. ("ABIZ") and held approximately 95.9% of the total voting power. On January 11, 2002, ACC distributed, in the form of a dividend, all of the shares of ABIZ common stock owned by ACC to holders of ACC's Class A and Class B common stock (the "Spin-off").[6] Subsequent to the Spin-off, Adelphia has continued a business relationship with ABIZ, such that ABIZ has borrowed funds from Adelphia, certain of ABIZ's subsidiaries manage certain facilities-based integrated communication networks that Adelphia previously purchased from ABIZ, and the companies provide other management and services to each other. On March 27, 2002, ABIZ and certain of its subsidiaries (the "ABIZ Debtors") filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code with this Court (the "March 27 ABIZ Filings"). In addition, on June 18, 2002, eleven additional subsidiaries of ABIZ also commenced voluntary chapter 11 cases with this Court (together with the March 27 ABIZ Filings, the "ABIZ Bankruptcy Cases"). The ABIZ Bankruptcy Cases are being administered separately from the instant chapter 11 cases.

D. Summary of Capital Structure

23. As of September 30, 2001, Adelphia reported, on a consolidated basis, approximately $24.4 billion in assets and approximately $18.6 billion in liabilities (excluding off-balance sheet obligations).[7]

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6 Following the Spin-off, ABIZ continued to be an affiliate of ACC by virtue of the fact that the Rigas Family, directly or indirectly, owns approximately 9.4% of the common stock of ABIZ and approximately 53.4% of the voting interests in ABIZ.

7 As described in more detail in the Affidavit of Christopher T. Dunstan in Support of Chapter 11 Petitions and First Day Orders and Pursuant to Local Bankruptcy Rule 1007-2 (the "Dunstan Affidavit"), audit work

(i) Prepetition Credit Facilities

24. As of June 1, 2002, various Debtors owed approximately $6.8 billion in principal amount of senior secured debt under six different credit facilities (collectively, the "Prepetition Credit Facilities"). Three of the credit facilities are co-borrowing credit facilities (collectively, the "Co-Borrowing Facilities") under which certain of the Debtors are co-borrowers with various Rigas Entities. Under the terms and conditions of the Co-Borrowing Facilities, each co-borrower may borrow up to the entire amount of available credit under the respective Co-Borrowing Facility. In addition, the Co-Borrowing Facilities provide that each co-borrower is jointly and severally liable for the entire amount of the indebtedness under the applicable Co-Borrowing Facility regardless of whether the particular co-borrower actually borrowed the total indebtedness under the respective Co-Borrowing Facility.

25. The Debtors' outstanding obligations under the Prepetition Credit Facilities are as follows:

- Olympus Co-Borrowing Facility. Indebtedness of approximately $1.3 billion (excluding outstanding letters of credit, accrued and unpaid interest and applicable fees and expenses) under that certain credit facility dated September 28, 2001, between and among certain of the Debtors, certain of the Rigas Entities, Bank of Montreal, as administrative agent, and the financial institutions party thereto (as amended, modified, supplemented and restated, the "Olympus Co-Borrowing Facility"). The Debtors' obligations under the Olympus Co-Borrowing Facility are secured by pledges of the capital stock of certain Debtor-borrowers and their restricted subsidiaries and guaranteed by the Debtor-borrowers and their restricted subsidiaries.

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with respect to Adelphia's financial statements for the year ended December 31, 2001 has not been completed and, consequently, all financial numbers provided herein reflect unaudited numbers. In addition, and also as further detailed below, on June 10, 2002, ACC disclosed that certain material financial information, including revenue estimates, for the years ended December 31, 2000 and 2001 was overstated and would need to be revised. Moreover on June 17, 2002, ACC announced that it had been advised by its former independent accountants, Deloitte & Touche LLP ("Deloitte"), that based on management's decision to revise ACC's financial statements, Deloitte was withdrawing certifications of financial statements of ACC and its subsidiaries issued since March 2001. Consequently, there can be no assurance that the financial information reported herein concerning Adelphia is complete and verifiable.

- Century Co-Borrowing Facility. Indebtedness of approximately $2.5 billion (excluding outstanding letters of credit, accrued and unpaid interest and applicable fees and expenses) under that certain credit facility dated April 14, 2000, between and among certain of the Debtors, certain of the Rigas Entities, Bank of America, N.A. and The Chase Manhattan Bank, as co-administrative agents, and the financial institutions party thereto (as amended, modified, supplemented and restated, the "Century Co-Borrowing Facility"). The Debtors' obligations under the Century Co-Borrowing Facility are secured by pledges of the capital stock of certain Debtor-borrowers and their restricted subsidiaries and guaranteed by the Debtor-borrowers and their restricted subsidiaries.

- UCA/HHC Co-Borrowing Facility. Indebtedness of approximately $831 million (excluding outstanding letters of credit, accrued and unpaid interest and applicable fees and expenses) under that certain credit facility dated May 6, 1999, between and among certain of the Debtors, certain of the Rigas Entities, Wachovia Bank, N.A., as administrative agent, and the financial institutions party thereto (as amended, modified, supplemented and restated, the "UCA/HHC Co-Borrowing Facility"). The Debtors' obligations under the Hilton Head Co-Borrowing Facility are secured by pledges of the capital stock of certain Debtor-borrowers and their restricted subsidiaries and guaranteed by the Debtor-borrowers and their restricted subsidiaries.

- Century-TCI Credit Facility. Indebtedness of approximately $1.0 billion (excluding outstanding letters of credit, accrued and unpaid interest and applicable fees and expenses) under that certain credit facility dated December 3, 1999, between and among Century-TCI California, L.P., Citibank, N.A., as administrative agent, and the financial institutions party thereto (as amended, modified, supplemented and restated, the "Century-TCI Credit Facility"). Century-TCI California's obligations under the Century-TCI Credit Facility are secured by pledges of the capital stock of the Debtor-borrower and its restricted subsidiaries and guaranteed by the Debtor-borrower's restricted subsidiaries.

- Frontier Credit Facility. Indebtedness of approximately $617 million (excluding outstanding letters of credit, accrued and unpaid interest and applicable fees and expenses) under that certain credit facility dated December 19, 1997, between and among FrontierVision Operating Partners, L.P., The Chase Manhattan Bank, as administrative agent, and the financial institutions party thereto (as amended, modified, supplemented and restated, the "Frontier Credit Facility"). FrontierVision Operating Partners, L.P.'s obligations under the Frontier Credit Facility are guaranteed by certain of the Debtors and secured by liens on substantially all of the Debtor-borrower's and Debtor-guarantors' assets.

- Parnassos Credit Facility. Indebtedness of approximately $623 million (excluding outstanding letters of credit, accrued and unpaid interest and

applicable fees and expenses) under that certain credit facility dated December 30, 1998, between and among Parnassos, L.P., The Bank of Nova Scotia, as administrative agent, and the financial institutions party thereto (as amended, modified, supplemented and restated, the "Parnassos Credit Facility"). The Debtors' obligations under the Parnassos Credit Facility are secured by pledges of the capital stock of the Debtor-borrower and its restricted subsidiaries and guaranteed by the Debtor-borrower's restricted subsidiaries.

(ii) ACC Notes

26. As of June 1, 2002, ACC owed approximately (i) $4.9 billion in principal amount (excluding accrued and unpaid interest) under fourteen series of senior notes issued pursuant to nine indentures (collectively, the "ACC Senior Notes") and (ii) $2.0 billion in principal amount (excluding accrued and unpaid interest) under two series of convertible subordinated notes issued pursuant to a single indenture (collectively, the "ACC Subordinated Notes" and together with the ACC Senior Notes, the "ACC Notes"). ACC's obligations under the fourteen series of ACC Senior Notes, which are unsecured obligations of ACC, are as follows:

- approximately $325 million owing under 9.250% Senior Notes due 10/1/02
- approximately $150 million owing under 8.125% Senior Notes due 7/15/03
- approximately $100 million owing under 7.500% Senior Notes due 1/15/04
- approximately $32 million owing under 9.500% PIK Notes due 2/15/04
- approximately $150 million owing under 10.500% Senior Notes due 7/15/04
- approximately $130 million owing under 9.875% Senior Debentures due 3/1/05
- approximately $500 million owing under 10.250% Senior Notes due 11/1/06
- approximately $350 million owing under 9.875% Senior Notes due 3/1/07
- approximately $300 million owing under 8.375% Senior Notes due 2/1/08
- approximately $300 million owing under 7.750% Senior Notes due 1/15/09

- approximately $350 million owing under 7.875% Senior Notes due 5/1/09
- approximately $500 million owing under 9.375% Senior Notes due 11/15/09
- approximately $745 million owing under 10.875% Senior Notes due 10/1/10
- approximately $1.0 billion owing under 10.250% Senior Notes due 6/15/11

ACC's obligations under the two series of ACC Subordinated Notes include (i) approximately $1.0 billion owing under 6.0% Convertible Subordinated Notes due 2/15/06 and (ii) approximately $975 million owing under 3.25% Convertible Subordinated Notes due 5/1/21.[8]

(iii) Subsidiary Notes

27. In addition to the ACC Notes, certain of the Debtors have issued approximately $2.6 billion in various series of unsecured senior and subordinated notes (collectively, the "Subsidiary Notes" and together with the ACC Notes, the "Notes"). The Debtors' obligations under the Subsidiary Notes are as follows:

Olympus (issued under one indenture):

- approximately $200 million owing under 10.625 % Senior Notes due 11/15/06

Arahova (issued under two indentures):

- approximately $413 million owing under Zero Coupon Senior Discount Notes due 3/15/03
- approximately $250 million owing under 9.500% Senior Notes due 3/01/05
- approximately $250 million owing under 8.875% Senior Notes due 1/15/07
- approximately $225 million owing under 8.750% Senior Notes due 10/01/07
- approximately $100 million owing under 8.375% Senior Notes due 12/15/07

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[8] These totals include approximately $567 million of convertible subordinated notes held by certain of the Regis Entities issued pursuant to two separate series of convertible subordinated notes that mirror the terms and conditions of the ACC Subordinated Notes.

- approximately $365 million owing under Zero Coupon Senior Discount Notes due 1/15/08
- approximately $100 million owing under 8.375% Senior Notes due 11/15/17

FrontierVision (issued under two indentures):

- approximately $237 million owing under 11.875% Senior Notes Series A due 9/15/07
- approximately $91 million owing under 11.875% Senior Notes Series B due 9/15/07

FVOP (issued under one indenture):

- approximately $200 million owing under 11.000% Senior Subordinated Notes due 10/15/06

(iv) ACC Preferred Stock

28. ACC has issued approximately $1.6 billion of cumulative exchangeable, mandatory and/or mandatory convertible preferred stock (the "ACC Preferred Stock"). Four series of ACC Preferred Stock are currently outstanding: (i) $150 million of 13% Series B Cumulative Exchangeable Preferred Stock with a maturity of July 15, 2009; (ii) $575 million of 5.5% Series D Convertible Preferred Stock; (iii) $345 million of 7.5% Series E Mandatory Convertible Preferred Stock with a maturity of November 15, 2004; and (iv) $575 million of 7.5% Series F Mandatory Convertible Preferred Stock with a maturity of February 1, 2005. All series of Preferred Stock are registered and approximately 1.5 million shares of Series B, 2.875 million shares of Series D, 13.8 million shares of Series E and 23.0 million shares of Series F Preferred Stock were outstanding as of June 1, 2002.

(v) ACC Common Stock

29. Prior to being delisted on June 3, 2002, the Class A common stock of ACC was publicly traded on NASDAQ under the symbol ADLAE. As of June 1, 2002, there were approximately (i) 228.6 million shares of ACC's Class A common stock outstanding and

(ii) 25.1 million shares of ACC's Class B common stock outstanding. ACC's Class A common stock currently trades on the NASDAQ OTC under the symbol ADELA.

(vi) Other Significant Prepetition Obligations

30. The Debtors are parties to numerous contractual agreements (collectively, the "Programming Agreements") with providers of cable television programming (e.g., HBO, ESPN, Turner Network Services, USA Network) (collectively, the "Programmers"). Pursuant to the terms and conditions of the Programming Agreements, the Debtors are obligated to pay monthly fees to the Programmers based on subscriber count in exchange for an upfront payment by the Programmers and permission to carry the Programmers' content on the Debtors' cable systems. As of June 1, 2002, the Debtors owed approximately $400 million to the Programmers.

31. In order to operate their cable and Non-Cable Businesses, the Debtors are required to post surety bonds to assure payment and/or performance under, among other things, the Debtors' pole agreements, franchise agreements and construction contracts (the "Surety Bonds"). The Debtors' primary performance bonding/surety company is The Hanover Insurance Company ("Hanover"). Subject to any applicable defenses, setoffs and counterclaims, as of the Petition Date, the Debtors had accrued and contingent liabilities of approximately $135 million relating to Surety Bonds issued by Hanover.[9] The Debtors have been notified by Hanover that it is canceling or will seek to cancel all Surety Bonds issued by Hanover on behalf of the Debtors. The Debtors are actively seeking alternative bonding sources.

32. In addition, as of June 1, 2002, the Debtors' trade creditors, vendors and contractors (excluding the Programmers) were owed an estimated $525 million.

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[9] This total includes approximately $35 million of accrued and contingent liabilities on account of surety bonds issued on behalf of ABIZ, for which obligations ACC is jointly and severally liable.

E. Cash Management System

33. ACC operates a centralized cash management system (the "CMS") on behalf of virtually all of the Debtors and certain non-Debtor affiliates and third parties, including the Managed Rigas Entities. Each participant in the CMS: (i) deposits all or some of its cash generated or otherwise obtained from its operations, borrowings and other sources into the CMS; (ii) withdraws cash from the CMS to be used for its expenses, capital expenditures, repayments of debt and other uses; and (iii) engages in transfers of funds with other participants in the CMS. Operation and administration of the CMS is described in further detail in the Debtors' Motion for Interim Order Authorizing Continued Use of Consolidated Cash Management System Pursuant to Sections 105 and 363 of the Bankruptcy Code (the "Cash Management Motion").

F. Events Leading to Commencement of Chapter 11 Cases[10]

34. Due to its valuable assets and strong core business, Adelphia has been and remains a viable business enterprise that generates substantial cash flow from operations. In order to sustain its business and ensure the future development and growth of its cable systems, infrastructure and broadband network, Adelphia must continuously expend capital on construction, modernization, expansion, and maintenance. Until recently, Adelphia largely financed such expenditures -- and its working capital needs -- by borrowings under the Prepetition Credit Facilities and raising money through issuance of the Notes. However, a series of recent events have precluded Adelphia from borrowing under its Prepetition Credit Facilities and limited Adelphia's access to capital markets, thus precipitating a severe liquidity crisis.

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10 A more detailed summary of the events leading to the commencement of these chapter 11 cases is provided in the Dunstan Affidavit, which summary is hereby incorporated by reference.

35. Specifically, on May 14, 2002, Deloitte suspended its auditing work on Adelphia's financial statements for the year ended December 31, 2001. Consequently, Adelphia was unable to: (i) deliver audited financial statements as required under the Prepetition Credit Facilities; (ii) comply with certain information delivery and other requests made pursuant to the Prepetition Credit Facilities and the Notes; and (iii) file its Form 10-K for the year ended December 31, 2001. Such events gave rise to defaults, and ultimately to Events of Default, as defined in certain of the Prepetition Credit Facilities and the Notes. Subsequently, on May 15, 2002, Adelphia failed to make interest payments totaling approximately $38.3 million under certain of the Notes and an approximately $6.5 million dividend payment on its Series E Mandatory Convertible Preferred Stock. These payment defaults in turn triggered cross-defaults among certain of the Prepetition Credit Facilities and the Notes. In addition, the delisting of ACC's Class A common stock by the NASDAQ National Market on June 3, 2002, triggered obligations to repurchase certain ACC Notes at 100% of their principal amount plus accrued and unpaid interest. On June 15, 2002, Adelphia failed to make interest payments totaling approximately $55.4 million under certain of the Notes.

36. The events, developments and matters described above transpired in the broader context of announcements and disclosures contained in certain Securities and Exchange Commission (the "SEC") filings and press releases by ACC since March 27, 2002 (collectively "the SEC Filings and Press Releases") that have raised serious concerns in the financial marketplace.[11] On April 3, 2002, ACC announced that the SEC was conducting an informal inquiry into the Co-Borrowing Facilities and asked Adelphia to provide clarification and

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[11] The descriptions of the events, developments and matters below do not purport to be complete summaries and are qualified in their entirety by reference to the SEC Filings and Press Releases, which are hereby incorporated by reference.

documentation related thereto. On April 17, 2002, ACC announced that it had been informed that the SEC had issued a formal order of investigation in connection with the Co-Borrowing Facilities. On April 18, 2002, ACC announced that it had received a NASDAQ Staff Determination Letter indicating that it was not in compliance with Marketplace Rule 4310(c)(14) for failing to timely file with the SEC its Annual Report on Form 10-K for the year ended December 31, 2001 and consequently, its securities were subject to delisting from the NASDAQ National Market. On May 16, 2002, ACC announced that the Special Committee of the Board of Directors (the "Special Committee") consisting of three independent directors would expand its ongoing investigation into a number of issues, including transactions between the Debtors and the Rigas Entities.

37. On May 23, 2002, ACC announced that as a result of discussions with the SEC, it tentatively had concluded that it should increase to approximately $2.5 billion, from the $1.6 billion previously reported, the amount of indebtedness to be included in its financial statements as of December 31, 2001, to reflect the full amount of principal borrowings and interest expense incurred by the Rigas Entities. ACC also announced that as of April 30, 2002, it estimated the total amount of co-borrowings by Rigas Entities for which Adelphia is jointly and severally liable was approximately $3.1 billion.

38. On May 23, 2002, ACC further announced that an agreement had been reached with the Rigas Family (the "Rigas Agreement") pursuant to which the Rigas Family agreed to take certain actions to relinquish control of Adelphia and to transfer certain assets to Adelphia. In connection with execution of the Rigas Agreement, all Rigas Family members still serving as officers and/or directors of Adelphia resigned their positions. The Rigas Agreement, which contemplates the execution of definitive documentation subject to Bankruptcy Court

approval, also specifically provides that, among other things: (i) cash flow from cable properties owned by the Managed Rigas Entities will be used to support the Rigas Family's obligations under the Co-Borrowing Facilities; (ii) Adelphia debt held by the Rigas Family, amounting to approximately $567 million, would be transferred to Adelphia in exchange for satisfaction of the Rigas Family obligations under a certain $202 million stock purchase agreement and a transfer to Adelphia of primary liability for approximately $365 million under the Co-Borrowing Facilities; (iii) those cable properties owned by the Managed Rigas Entities that Adelphia chooses to have transferred to Adelphia will be transferred to Adelphia or to a third party of Adelphia's choosing at their appraised value; (iv) all ACC stock owned by the Rigas Family will be placed in a voting trust until all obligations of the Rigas Family to Adelphia for loans, advances, or borrowings under the Co-Borrowing Facilities or otherwise are satisfied; and (v) all ACC common and preferred stock held by the Rigas Family will be pledged to Adelphia as security for the balance of the Rigas Family's obligations.

39. On May 24, 2002, ACC announced that it had filed a current report on Form 8-K, disclosing and outlining, among other things, various transactions with the Rigas Entities and the Co-Borrowing Facilities. On June 10, 2002, ACC disclosed that certain material financial information, including revenue estimates, for the years ended December 31, 2000 and 2001 was overstated and would need to be revised. In addition, ACC announced that it would reduce its reported subscriber count by 47,000.

40. As a cumulative result of the foregoing events of default, the Debtors had no borrowing availability under their various Prepetition Credit Facilities and no access to traditional sources of liquidity in the capital markets. In addition, Adelphia's efforts to generate liquidity through the sale of certain of its assets have been unsuccessful. Consequently, Adelphia

determined that the continued viability of its businesses required immediate access to debtor in possession financing and a breathing spell from creditors to resolve its financial reporting and related issues and restructure its highly leveraged capital structure.

III. THE DEBTORS' NEED FOR DIP FINANCING

41. In order to continue their operations in an orderly fashion and to avoid imminent and irreparable harm to their businesses, it is necessary for the Debtors immediately to obtain the financing provided by the DIP Financing and to use the Cash Collateral, on the terms and conditions set forth in the DIP Credit Agreement and the Interim Order, and on a permanent basis. As of the Petition Date, the Debtors' liquidity was severely constrained. As such, without immediate access to the DIP Financing and ability to use the Cash Collateral, the Debtors will be unable to fund payroll or make virtually any of the payments necessary to continue to operate their businesses in the near term and pending the Final Hearing. Under these circumstances, absent approval of the Interim Order, the Debtors likely will lack sufficient funds to continue their businesses as going concern entities. Such a result, at the very outset of these chapter 11 cases, could prove to be catastrophic to the Debtors' reorganization efforts.

42. As a result, the Debtors are in dire need of immediate access to financing, including letters of credit to support the Debtors' performance and miscellaneous bonding needs. To this end, the Debtors anticipate using the Interim DIP Financing (inclusive of letters of credit) to fund their working capital, capital expenditure, general corporate overhead and other needs over the next forty-five days.[12] The use of the Interim DIP Financing will be subject to specific limits imposed on each of the Borrowing Groups during the interim period as follows: each

[12] The Debtors have factored into their estimates of the Interim DIP Financing need expected collections and authority to use Cash Collateral. Thus, it is through a combination of the Interim DIP Financing, cash generated from operations and the use of Cash Collateral that the Debtors will fund their operations during the time period between the Interim Hearing and the Final Hearing.

Borrowing Group, subject to the $500 million maximum being made available, will be able to utilize up to $150 million of the Interim DIP Financing, except for the Parnassos Borrowing Group and the Joint and Several Borrowing Group, each of which will shall be limited to up to $50 million of Interim DIP Financing.

43. The Debtors respectfully submit that, in addition to the specific needs set forth in the foregoing paragraph, this Court's approval of the DIP Financing is an important factor in stabilizing the Debtors' businesses. By this Court's approval thereof, the Debtors will be able to demonstrate to their employees, Programmers, vendors, suppliers, contractors, contract parties and other key business partners that the Debtors are a viable enterprise and will have sufficient funds to operate in the ordinary course on a postpetition basis, and to pay for postpetition goods and services. Importantly, obtaining the DIP Financing and receiving authority to use the Cash Collateral will improve employee morale and assist in the Debtors' employee retention efforts.

IV. DEBTORS' EFFORTS TO OBTAIN OTHER FINANCING

44. Prior to the Petition Date, the Debtors sought additional equity and/or debt financing from both new and existing investors and lenders. To this end, the Debtors engaged in negotiations with certain of the Prepetition Lenders and other potential third party lenders to obtain additional financing without filing for chapter 11 protection. Moreover, the Debtors devoted substantial time and effort in connection with attempts to generate liquidity through the sale of certain of their assets. However, these efforts were ultimately unsuccessful.

45. Given the extent and complexity of the outstanding secured and unsecured indebtedness owing by the Debtors, the extreme time constraints faced by the Debtors in light of their liquidity problems and the announcements and disclosures contained in the SEC Filings and Press Releases, the range of realistic financing alternatives available for the Debtors to explore

was limited. Notwithstanding this fact, up until shortly before the Petition Date the Debtors engaged in discussions with certain of the Prepetition Lenders, other potential third party lenders and potential transaction partners concerning the possibility of obtaining financing and /or generating liquidity either out-of-court or within the context of chapter 11.

46. In connection with these efforts, the Debtors solicited and received five separate debtor in possession financing proposals (the "DIP Proposals") from certain of their Prepetition Lenders, as well as other third parties.[13] After assessment of the Debtors' debtor in possession needs by their financial advisors and restructuring consultants, analysis of the respective DIP Proposals, and an assessment of the respective potential postpetition lenders' wherewithal and ability to execute an exceedingly complex financing under exigent conditions, the Debtors determined that the debtor in possession financing proposal submitted by JPMorgan Chase Bank ("JPMorgan Chase") and Citicorp USA, Inc. ("Citicorp") was the best proposal available to the Debtors under such circumstances.

47. The Debtors believe that the DIP Financing proposed herein is superior to any of the other DIP Proposals. As set forth in the DIP Credit Agreement, the DIP Lenders have agreed to provide the Debtors with up to $1.5 billion of new working capital liquidity to operate and enhance their businesses, including provision of letters of credit to support the issuance of performance and surety bonds necessary to conduct the Debtors' businesses. On balance, none of the other DIP Proposals received by the Debtors offered them the same level of financing commitment on terms as favorable as those contained in the DIP Credit Agreement. Moreover,

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[13] In addition to the DIP Proposals, the Debtors received a number of inquiries from other parties concerning the possibility of providing additional financing to the Debtors, both inside and outside of chapter 11. Due to the rapid deterioration of the Debtors' liquidity position, the complexity of the Debtors' prepetition capital structure and the announcements and disclosures contained in the SEC Filings and the Press Releases, none of these additional inquiries progressed to the term sheet phase.

in light of their respective roles as agents under the certain of the Prepetition Credit Facilities and as Prepetition Lenders, JPMorgan Chase and Citicorp were already familiar with the Debtors' prepetition capital structure and, therefore, in a position to negotiate the terms and conditions of the DIP Credit Agreement and the Loan Documents in the expedited time frame necessitated by the Debtors' severe liquidity crisis. Finally, the skill and expertise of the Co-Lead Arrangers in structuring and syndicating DIP Financing of the magnitude and complexity proposed here -- with the several structure and other complex provisions -- played an important role in the selection process.

48. Under these circumstances, the Debtors respectfully submit that the DIP Financing to be made available pursuant to the DIP Credit Agreement, the Loan Documents, the Interim Order and the Final Order is the best debtor in possession financing available to the Debtors. As such, approval of the DIP Financing is necessary in order to provide the Debtors with access to the best financing proposal available to satisfy their postpetition financing needs.

V. TERMS AND CONDITIONS OF THE DIP FINANCING

49. As described above, the DIP Financing will be extended to the Debtors on a per Borrowing Group basis, and will impose separate borrowing limits for each of the Borrowing Groups, subject to the maximum commitment of the DIP Lenders. Six of the seven Borrowing Groups will correspond to and nearly replicate the prepetition structure of the Debtors' borrowings under the Debtors' six Prepetition Credit Facilities. The DIP Financing obligations within those six Borrowing Groups will be joint and several within each Borrowing Group, but several as between Borrowing Groups. The seventh Borrowing Group under the DIP Financing will, with one exception, consist of those Debtor entities that are not borrowers, pledgors and/or guarantors under any of the Prepetition Credit Facilities. The DIP Financing

obligations of the Debtors within the seventh Borrowing Group will be joint and several both within such Borrowing Group and among all the other Borrowing Groups.

50. In connection with the DIP Financing, the Debtors also will modify the CMS to implement the Cash Management Protocol under which, among other things, (i) the actual DIP Financing borrowings utilized by the respective Borrowing Groups and (ii) the actual cash generated and/or utilized by the respective Borrowing Groups will be reconciled to ensure that such borrowings and utilizations are properly accounted for and reflected as between and among the respective Borrowing Groups. A copy of the Cash Management Protocol is annexed as Schedule 3 to the Interim Order.

51. The DIP Lenders are willing to make the DIP Financing available to the Debtors upon the terms and conditions set forth in the DIP Credit Agreement, the Interim Order and the Final Order. The significant terms and conditions of the DIP Credit Agreement are summarized as follows:[14]

Borrowers:	Certain of the Debtors, each of which is identified as a Borrower in the DIP Credit Agreement (each, a "Borrower") and on Schedule 1 to the Interim Order. Each Borrower and certain of its direct and indirect Debtor subsidiaries identified for such Borrower in the DIP Credit Agreement, as the case may be, are collectively referred to as a "Borrower Group". Each Borrower under a Prepetition Credit Facility and certain of its direct and indirect Debtor subsidiaries as identified in the DIP Credit Agreement is referred to as a "Several Borrower Group". Each other Borrower and certain of its direct and indirect Debtor subsidiaries identified in the DIP Credit Agreement is referred to as a "Joint and Several Borrower Group," which Group, with one exception, includes those Debtor entities that are not borrowers, pledgors and/or guarantors under any of the Prepetition Credit Facilities.

[14] This summary is qualified in its entirety by reference to the provisions of the DIP Credit Agreement. The DIP Credit Agreement will control in the event of any inconsistency between this Motion and the DIP Credit Agreement.

Guarantors:	ACC and, with respect to each Borrower, (i) each other entity in its Borrower Group (the "Borrower Group Guarantors"), (ii) each entity in a Joint and Several Borrower Group (the "Joint and Several Guarantors") and (iii) each of the direct and indirect holding companies of each Borrower identified for such Borrower in the DIP Credit Agreement (the guarantees of such holding companies, the "Holding Company Guarantors"). The Borrowing Group Guarantors are related to particular Borrowing Groups and will not guarantee the DIP Financing obligations incurred by other Borrowing Groups. The Joint and Several Guarantors and the Holding Company Guarantors guarantee the DIP Financing obligations incurred by all Borrowing Groups. Each guarantee (other than a Holding Company Guarantee) will be secured by all of the assets of the relevant guarantor. Each Holding Company Guarantee will be secured by the equity of each direct subsidiary of such Holding Company and by any cash accounts or cash investments of such Holding Company. No entity in a Several Borrower Group will guarantee the obligations of any Borrower or any other entity that is not in such entity's Borrower Group.
Credit Facility:	A facility up to $1.5 billion consisting of a revolving tranche and a possible term tranche, with a letter of credit sublimit. Until the Incremental Availability Conditions are satisfied, and in no event prior to the entry of the Final Order, availability under the facility shall be limited to an amount not to exceed $500 million. The maximum amount of the facility available to each Borrower from time to time will be agreed to by the Initial Lenders, and is referred to as such Borrower's "Borrowing Limit". Each Borrowing Group will be subject to an initial Borrowing Limit of $150 million per Borrowing Group, except in the case of the Parnassos Group and the Joint and Several Borrowing Group, each of which will be subject to a Borrowing Limit of $50 million. Future Borrowing Limits will be established in connection with budgets delivered by the respective Borrowing Groups. The Borrowing Limit of any Borrower at any time will be reduced by the amount of intercompany advances owed by any entity in such Borrower's Borrowing Group to any entity other than an entity in such Borrower's Borrowing Group ("Non-Group Intercompany Debt"). The incurrence of Non-Group Intercompany Debt will be subject to the limitations set forth in the DIP Credit Agreement.
Nature of	

Obligations:	The obligations of any Borrower and any Guarantor in any Several Borrower Group will be joint and several within such Several Borrower Groups, and several as to any other Borrower Group. The obligations of any Borrower and any Guarantor in any Joint and Several Borrower Group will be joint and several within such Joint and Several Borrower Group as well as with all other Several Borrower Groups.
Maturity:	The earliest of (i) June 25, 2004, (ii) 45 days after the entry of the Interim Order (in form and substance satisfactory to the Co-Lead Arrangers), if the Final Order has not been entered prior to the expiration of such 45-day period (the "Prepayment Date"), and (iii) the substantial consummation of a plan of reorganization (a "Plan") that is confirmed pursuant to an order entered by the Bankruptcy Court (the "Consummation Date").
Co-Lead Arrangers:	J.P. Morgan Securities Inc. and Salomon Smith Barney Inc.
Initial DIP Lenders:	JP Morgan Chase Bank, Citicorp USA, Inc., Wachovia Bank, N.A., The Bank of Nova Scotia, Bank of America, N.A., Fleet National Bank and General Electric Capital Corporation (each, an "Initial Lender").
Initial Majority DIP Lenders:	The Initial DIP Lenders having commitments in excess of 66.66%.
Administrative Agent:	JP Morgan Chase Bank.
Collateral Agent:	Citicorp USA, Inc.
Priority and Liens:	The obligations of each Borrower and each Guarantor (each, a "Loan Party") under the DIP Financing will be secured, in each instance subject to the Carve-Out, as follows: (i) pursuant to section 364(c)(1) of the Bankruptcy Code, by an allowed superpriority administrative claim; (ii) pursuant to section 364(c)(2) of the Bankruptcy Code, by a perfected first priority Lien on (x) with respect to any Loan Party other than a Holding Company Guarantor, all unencumbered property of such Loan Party other than Excluded Property and any amounts that cash collateralize any Letter of Credit issued for the account of such Loan Party (if any) or the Unfunded Borrowing Limit of such Loan Party (if any) and (y) with respect to any Loan Party that is a Holding Company Guarantor, all unencumbered Equity Interests (other than Excluded Property) of any direct Subsidiary of such Holding Company Guarantor and all Holding

Company Specified Assets of such Holding Company Guarantor;

(iii) pursuant to section 364(c)(3) of the Bankruptcy Code, by a perfected junior Lien on (x) with respect to any Loan Party other than a Holding Company Guarantor, all property of such Loan Party that is subject to valid and perfected liens in existence as of the Petition Date or to valid Liens in existence as of the Petition Date that are perfected subsequent to the Petition Date as permitted by sections 546(b) and 362(b)(18) of the Bankruptcy Code (other than the property (if any) that is subject to any Primed Liens which Liens shall be primed by the Priming Liens) and (y) with respect to any Loan Party that is a Holding Company Guarantor, its Holding Company Specified Assets that are subject to valid and perfected liens in existence on the Petition Date or to valid Liens in existence on the Petition Date that are perfected subsequent to the Petition Date as permitted by section 546(b) and 362(b)(18) of the Bankruptcy Code (other than the property (if any) that is subject to existing Liens that secure obligations (if any) of such Holding Company Guarantor under the Prepetition Credit Facility as to which such Holding Company Guarantor is liable, which Liens shall be primed by the Priming Liens); and

(iv) pursuant to section 364(d)(1) of the Bankruptcy Code, by a perfected first priority (subject to Liens permitted under the DIP Credit Agreement, other than the Primed Liens), senior priming lien on all of the property of such Loan Party that is subject to any of the Priming Liens, all of which Primed Liens shall be primed by and made subject and subordinate to the perfected first priority senior liens to be granted to the Agents, the Fronting Banks and the DIP Lenders as well as the Permitted Inter-Group Debt Liens.

Carve-Out: means (i) all fees required to be paid to the Clerk of the Bankruptcy Court and to the Office of the United States Trustee under section 1930(a) of title 28 of the United States Code and (ii) an amount not exceeding $15,000,000 in the aggregate with respect to all Loan Parties, which amount may be used after the occurrence and during the continuance of an Event of Default, to pay fees or expenses incurred by Loan Parties and any Committee in respect of (A) allowances of compensation for services rendered or reimbursement or expenses awarded by the Bankruptcy Court to the professionals duly retained on behalf of the Loan Parties or any Committee pursuant to an order of the Bankruptcy Court and (B) the reimbursement of expenses allowed by the Bankruptcy Court incurred by Committee members in the performance of their duties (but excluding fees and expenses of third-party professionals employed by such members), and of which amount up to $500,000 may be applied towards the reasonable fees and disbursements of a chapter 7 Trustee in any liquidation of a Loan Party pursuant to chapter 7 of the Bankruptcy Code,

pursuant to section 726 of the Bankruptcy Code; *provided, however,* that such dollar limitation on fees and expenses shall not be reduced by the amount of any compensation and reimbursement of expenses paid prior to the occurrence of an Event of Default in respect of which the Carve-Out is invoked or any fees, expenses, indemnities or other amounts paid to the Agents, any Fronting Bank or any DIP Lender and their respective attorneys and agents under any Loan Document or otherwise; and *provided further* that nothing herein shall be construed to impair the ability of any party to object to any of the fees, expenses, reimbursement or compensation described in clauses (A) and (B) above.

Adequate Protection: The parties (the "Primed Parties") whose liens are primed by the DIP Financing, and the cash proceeds of whose prepetition collateral shall be authorized for use by the Borrowers and the Guarantors pursuant to the orders approving the DIP Financing, will receive from their particular Borrowers and Guarantors the following as adequate protection (and consistent with the rights of the Primed Parties under Section 506(b) of the Bankruptcy Code):

(i) monthly payment of an amount equal to current interest and letter of credit fees (and the payment of all interest and fees that are accrued and unpaid as of the Petition Date) at the applicable non-default base rates plus the margin applicable as of the day immediately prior to the Petition Date as specified in the respective Prepetition Credit Facilities;[15]

(ii) a superpriority claim against their particular borrowers and guarantors under the respective Prepetition Credit Facilities pursuant to section 507(b) of the Bankruptcy Code, which superpriority claim shall be immediately junior to the claims granted under section 364(c)(1) of the Bankruptcy Code to the Collateral Agent and the Intercompany Liens;

(iii) replacement liens on the current and future assets of their particular borrowers and guarantors under the respective Prepetition Credit Facilities (including without limitation any Non-Group Intercompany Debt owed to a Borrower or Guarantor and the Intercompany Liens of such Borrower against other Borrowers or Guarantors), which replacement liens shall be immediately junior to the Priming Liens and the other liens to be granted in favor of the Collateral Agent and the Intercompany Liens;

(iv) payment on a current monthly basis of the reasonable fees and expenses (including, without limitation, the reasonable fees and

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15 The Interim Order and the Final Order will provide that by agreeing to accept the monthly payment of current interest, the Prepetition Lenders shall be deemed to have waived their rights to assert claims for prepetition interest at the applicable default rates under the respective Prepetition Credit Facilities.

disbursements of counsel and internal and third-party consultants, including financial consultants and auditors) incurred by the respective agents under the Prepetition Credit Facilities (including any accrued and unpaid prepetition fees and expenses) and the payment on a current basis of the administration fees payable under the respective Prepetition Credit Facilities; and

(v) receipt by the respective agents under the Prepetition Credit Facilities of copies of financial reports provided to the Agents under the Loan Documents.

So long as there are any borrowings or letters of credit outstanding, or the commitments under the facility are in effect, the Primed Parties shall not be permitted to take any action in the Bankruptcy Court or otherwise to exercise any remedies in respect of such adequate protection claims or liens; provided, that the foregoing shall not prevent the Primed Parties from seeking additional adequate protection or modification thereof or seeking the termination of the use of Cash Collateral upon the occurrence and during the continuance of any event of default under the Loan Documents as long as such additional adequate protection shall at all times be subject and junior to the claims and liens securing the DIP Financing.

As additional adequate protection to the interests of the Primed Parties, the Debtors will implement the Cash Management Protocol.

Availability: Availability under the facility will be subject to the following conditions, among others:

(i) until the satisfaction of the Incremental Availability Conditions, and in no event prior to entry of the Final Order, no more than $500 million will be available to the Borrowers in the aggregate;

(ii) aggregate borrowings of all Borrowers may not exceed total commitments under the DIP Credit Agreement that are available from time to time;

(iii) no Borrower may borrow in excess of its Borrowing Limit from time to time (as reduced by Non-Group Intercompany Debt and as a result of assets sales to the extent contemplated under the DIP Credit Agreement)

To the extent the DIP Financing is used to issue letters of credit in support of surety or performance bonds and similar obligations, each Borrower will be required to obtain a separate letter of credit for, or be liable with respect to, an amount that is commensurate with the benefit to be received by such Borrower as a result of the transactions supported by such bonds or similar obligations.

Mandatory Repayments and Limitations:	Upon the consummation by any Loan Party of any asset sale or other disposition (voluntary or involuntary) in which the aggregate net proceeds exceed $1.0 million, the net proceeds thereof will be applied as follows: Several Borrower Group: (i) to repay outstanding loans; (ii) to cash collateralize letters of credit equal to 110% of the amount outstanding; (iii) to cash collateralize the borrowing limit of such Borrower in an amount equal to 110% of the unfunded borrowing limit; (iv) to repay intercompany debt; (v) to fund cash collateral account of such Borrower for the benefit of the Prepetition Lenders. Joint and Several Borrower Group: (i) to repay outstanding loans; (ii) to cash collateralize letters of credit equal to 110% of the amount outstanding; (iii) to cash collateralize the borrowing limit of such Borrower in an amount equal to 110% of the unfunded borrowing limit; (iv) to repay the outstanding loans of all other Borrowers; (v) to cash collateralize letters of credit for all other Borrowers in an amount equal to 110% of such Letter of Credit Outstanding; (vi) to cash collateralize the borrowing limit of each other Borrower in an amount equal to 110% of such Borrower's unfunded borrowing limit; (vii) to repay any permitted Inter-Group Debt owed by any loan party; and (viii) to fund cash collateral account of such Borrower for the benefit of the pre-petition lenders. In addition, in connection with any such sale or other disposition, (x) the Borrowing Limit of such Borrower will be reduced by an amount to be mutually determined by the relevant Borrower and the Initial Majority DIP Lenders and (y) the total commitments under the DIP Credit Agreement will be reduced by an amount equal to the amount of the repayment and cash collateralization made by the relevant Borrower.
Optional Commitment Reductions:	Each Borrower may reduce the allocable unused commitment for its Borrower Group at any time and from time to time.
Interest Rate Margin:	350 basis points over LIBOR, 250 basis points over Base Rate.
Default Rate Interest:	Interest rate then in effect plus 2.0%.
Commitment Fees:	A commitment fee will accrue daily on the unused portion of the commitments, at a rate determined in accordance with the following grid,

based on usage (including the face amount of all letters of credit issued and outstanding):

Usage <33.3%: 100 basis points
Usage =33.3% but =66.6%: 75 basis points
Usage >66.6%: 50 basis points

Other Fees: The following fees will be charged in connection with the DIP Financing:

(i) an advisory fee in the amount of $5.0 million payable to each of the Joint Bookrunners;

(ii) an upfront work fee of $500,000 payable to each of the Joint Bookrunners (already paid);

(iii) an underwriting fee of 2.5% of the Total Commitment ($37.5 million) payable to the Joint Bookrunners;

(iv) an annual administrative fee of $250,000 payable to the DIP Agent; and

(v) an annual collateral administration fee of $250,000 payable to the Collateral Agent.

Conditions: Conditions to initial lending include, without limitation: (i) the entry of one or more orders of the Bankruptcy Court satisfactory in form and substance to the Co-Lead Arrangers, with the consent or non-objection of a preponderance (as determined by the Co-Lead Arrangers in their sole discretion) of the Lenders in respect of each Borrower Group under the Prepetition Credit Facilities, and (x) approving the transactions contemplated by the DIP Credit Agreement, and (y) granting the superpriority administrative claim status and liens referred to above, all on terms satisfactory to the Co-Lead Arrangers; (ii) mutual agreement between the Borrowers and the Co-Lead Arrangers regarding the acceptability in form and substance of the "first day orders" entered at the time of commencement of the Cases; and (iii) the satisfaction of the Co-Lead Arrangers with their due diligence review of each Loan Party's business operations, prospects, financial reporting systems, existing obligations and financial condition.

Conditions to availability under the DIP Credit Agreement in excess of $500 million (the "Incremental Availability Conditions") include, without limitation: (i) the satisfaction of the Initial Majority DIP Lenders with a further due diligence review of each Loan Party, and if requested by the Initial Majority DIP Lenders, an evaluation of each Loan Party's assets (including an analysis of its subscriber base) and an analysis of each Loan

Party's reporting systems (including cash management and billing) prepared at such Loan Party's expense; (ii) satisfaction of the Co-Lead Arrangers of the Budgets and the Long-Term Budgets; and (iii) the delivery to the Collateral Agent of Uniform Commercial Code searches conducted in jurisdictions in which each Loan Party conducts business within 60 days after entry of the Interim Order (which time period may be extended by the Co-Lead Arrangers).

Covenants: Affirmative and negative covenants usual for transactions of this kind, which include, in any event, a limitation on indebtedness other than purchase money indebtedness up to $40 million and Permitted Liens, a negative pledge, financial covenants (discussed below), maintenance of franchise agreements subject to a basket pursuant to which lapse of which would not cause a loss of more than 10% of the subscribers on a consolidated basis or with respect to one Borrowing Group, and a requirement to conduct the cash management system in accordance with the Cash Management Protocol. The covenants will also include a limitation on investments (subject to baskets for investments related to the Managed Rigas Entities ($10 million) and for other items ($3 million)).

Direct advances and other investments by any entity in one Borrower Group to any entity in another Borrower Group are not be permitted. Advances by any entity in any Borrower Group to any of its direct or indirect holding companies, and by any direct or indirect holding company of any Borrower Group to any entity in such Borrower Group, are permitted so long as such advances and investments are secured by a silent second lien on the collateral securing the facility (the "Intercompany Liens"), which liens will be subordinated in all respects (including as to enforcement) to the liens securing the facility (except that no member of a Borrower Group may make advances while a financial covenant event of default is in effect with respect to such Borrower Group). The recipients of any funds pursuant to advances permitted by the immediately preceding sentence will guarantee the repayment of such advances on a subordinated basis.

Permitted intercompany advances and outstanding borrowings under the facility for any Borrower Group shall not exceed the Borrowing Limit for such Borrower Group.

Financial Covenants: Including, without limitation, (but not to be implemented until occurrence of the Covenant Addendum Date):

(i) minimum EBITDA with respect to each Borrower Group; and

(ii) maximum capital expenditures with respect to each Borrower Group,

to be tested monthly.

Compliance with each financial covenant by each Borrower Group will be tested at the end of each calendar month, beginning with the calendar month in which the Long Term Budget for such Borrower Group is delivered (but no later than the calendar month in which the 120th day after the effective date of the DIP Credit Agreement).

Failure of any Borrower Group to comply with any financial covenant will constitute an event of default only with respect to such Borrower Group.

Events of Default: Standard events of default including, without limitation, breach of representations and warranties, breach of covenants, payment defaults, conversion to chapter 7, change of control, and if the Covenant Addendum Date shall not have been satisfied before the 120th day after the effective date of the DIP Credit Agreement.

Breach of financial covenants will only cause a default with respect to the particular Borrowing Group to which they relate, provided, however, that a breach of the "true-up" covenant (i.e., failure to repay loans and intercompany advances in accordance with the Cash Management Protocol) for two consecutive months causes a default of all Borrowing Groups.

Set-off: Subject to certain provisions specified in the DIP Credit Agreement, upon the occurrence and during the continuance of any Event of Default and upon at least five days' prior notice to the applicable Loan Party, each Agent, each Fronting Bank and each DIP Lender may, to the fullest extent permitted by law and without further order of or application to the Bankruptcy Court, set off and apply any and all deposits at any time held and other indebtedness at any time owing to each such Agent, each such Fronting Bank and each such DIP Lender.

Reporting Requirements: Including, without limitation:

(i) delivery of monthly budgets for each calendar month and the two subsequent calendar months (each, a "Budget") with respect to the consolidated group and each Borrower Group in form and substance acceptable to the Co-Lead Arrangers in their sole discretion, specifying, among other things, maximum projected usage under the facility for each Borrower during the month covered by such Budget and the two months following such month. The first set of Budgets to be delivered will be for the month of August 2002 for the consolidated group and the month of October 2002 for each Borrower Group;

(ii) delivery no later than 120 days after the effectiveness of the facility of a final long-term budget (a "Long-Term Budget") with respect to each Borrower Group in form and substance acceptable to the Co-Lead Arrangers in their sole discretion for a period ending not earlier than the maturity of the facility;

(iii) commencing July 1, 2002, weekly delivery of rolling 13-week projected receipts and disbursement forecasts with respect to the Parent Group and with respect to each other Borrower Group, prior to the 120th day after the effective date of the DIP Credit Agreement;

(iv) monthly delivery of reports regarding intercompany debt and intercompany advances; and

(v) monthly delivery of reports regarding status of franchise agreements, information regarding subscribers and other related information.

Governance: The Borrowers will continue to employ a chief restructuring officer reasonably acceptable to the Agents.

Assignments: Assignments will not require the consent of any Loan Party.

Governing Law: New York, except as governed by the Bankruptcy Code.

52. The DIP Financing and the Interim Order include certain provisions considered to be "Extraordinary Provisions" under the proposed Guidelines for Financing Requests dated March 20, 2002, issued by the United States Bankruptcy Court for the Southern District of New York, including provisions relating to: (i) the conversion of one of the Debtors' chapter 11 cases to a case under chapter 7 of the Bankruptcy Code (in which event up to $500,000 may be applied towards the reasonable fees and disbursements of a chapter 7 trustee in any liquidation of a Debtor under chapter 7 of the Bankruptcy Code); (ii) an Event of Default occurring upon automatic stay relief permitting foreclosure on any assets having a value in excess of $5 million; (iii) an Event of Default occurring in the event the Debtors do not employ a chief restructuring officer reasonably acceptable to the Agents; (iv) modification of the automatic stay and the amount of prior notice which must be provided before the DIP Lenders may exercise

remedies under the DIP Credit Agreement; (v) except for the Carve-Out, charging expenses of administration of the Debtors' chapter 11 cases against the Collateral pursuant to section 506(c) of the Bankruptcy Code or other similar law without the prior consent of the Agents and/or the Pre-Petition Agents, as the case may be; and (vi) the granting of liens on any proceeds recovered on account of successful Avoidance Actions.

53. In the context of the size and complexity of the proposed DIP Financing, the extent and intricacies of the outstanding secured and unsecured prepetition indebtedness owing by the Debtors, the extreme time constraints faced by the Debtors in light of their liquidity problems, and the announcements and disclosures contained in the SEC Filings and the Press Releases, the Debtors believe that these Extraordinary Provisions are appropriate under the circumstances.

VI. AUTHORITIES

A. The Debtors Have Satisfied the Bankruptcy Code's Requirements for Obtaining Credit and Use of Cash Collateral

(i) Use of Cash Collateral

54. Section 363 of the Bankruptcy Code governs the Debtors' use of property of their estates.[16] Section 363(c)(1) provides that:

> If the business of the debtor is authorized to be operated under section...1108...of this title and unless the court orders otherwise, the trustee may enter into transactions, including the sale or lease of property of the estate, in the ordinary course of business, without notice or a hearing, and may use property of the estate in the ordinary course of business without notice or a hearing.

11 U.S.C. § 363(c)(1).

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[16] Pursuant to § 1107 of the Bankruptcy Code, a debtor in possession has all of the rights and powers of a trustee with respect to property of the estate, including the right to use property of the estate in compliance with § 363 of the Bankruptcy Code. See 11 U.S.C. § 1107(a).

55. Section 363(c)(2), however, provides an exception with respect to "cash collateral" to the general grant of authority to use property of the estate in the ordinary course set forth in section 363. Specifically, a trustee or debtor in possession may not use, sell or lease "cash collateral" under subsection (c)(1) unless:

A. each entity that has an interest in such collateral consents; or

B. the court, after notice and a hearing, authorizes such use, sale or lease in accordance with the provisions of this section.

11 U.S.C. § 363(c)(2).

(ii) Incurrence of Superpriority Secured Debt Pursuant to sections 364(c) and (d) of the Bankruptcy Code

56. Pursuant to section 364 of the Bankruptcy Code, a debtor may, in the exercise of its business judgment, incur secured debt if the debtor has been unable to obtain unsecured credit and the borrowing is in the best interests of the estate. See 11 U.S.C. § 364(c), (d); In re Ames Dept. Stores, Inc., 115 B.R. 34, 38 (Bankr. S.D.N.Y. 1990) (with respect to post-petition credit, courts "permit debtor[s]-in-possession to exercise their basic business judgment consistent with their fiduciary duties"); see also 3 Collier on Bankruptcy ¶ 364.03, at 364-7-18 (15th ed. rev. 2001).

57. Section 364(c) of the Bankruptcy Code provides, that:

> (c) If the trustee [or debtor in possession] is unable to obtain unsecured credit allowable under § 503(b)(1) of this title as an administrative expense, the court, after notice and a hearing, may authorize the obtaining of credit or the incurring of debt –
>
> (1) with priority over any and all administrative expenses of the kind specified in § 503(b) or 507(b) of this title;
>
> (2) secured by a lien on property of the estate that is not otherwise subject to a lien; or
>
> (3) secured by a junior lien on property of the estate that is subject to a lien.

11 U.S.C. § 364(c).

58. In addition, section 364(d)(1), which governs the incurrence of postpetition debt secured by senior or "priming" liens, provides that, the Court may, after notice and a hearing:

> authorize the obtaining of credit or the incurring of debt secured by a senior or equal lien on property of the estate that is subject to a lien only if –
>
> (A) the trustee is unable to obtain such credit otherwise; and
>
> (B) there is adequate protection of the interest of the holder of the lien on the property of the estate on which such senior or equal lien is proposed to be granted.

11 U.S.C. § 364(d)(1).

59. The Debtors respectfully submit that they have satisfied the requirements of sections 364(c) and (d) of the Bankruptcy Code because they are unable to obtain credit otherwise and the interests of the Prepetition Lenders are adequately protected. In satisfying the standards of section 364 of the Bankruptcy Code, a debtor does not need to seek credit from every possible source. Rather, it should make a reasonable effort to seek other sources of credit of the type set forth in sections 364(a) and (b). See, e.g., In re Snowshoe Co., 789 F.2d 1085, 1088 (4th Cir. 1986) (finding that trustee had demonstrated good faith effort that credit was not available without granting of senior liens: " the statute imposes no duty to seek credit from every possible lender before concluding that such credit is unavailable"); Ames, 115 B.R. at 40 (finding that debtors demonstrated the unavailability of unsecured financing where debtors approached several lending institutions).

60. In the instant case, given the extent and complexity of the outstanding secured and unsecured indebtedness owing by the Debtors, the extreme time constraints faced by the Debtors in light of their liquidity problems, and the announcements and disclosures contained

in the SEC Filings and Press Releases, the Debtors concluded that it would be impracticable to seek postpetition financing that was unsecured or junior in priority to the Prepetition Lenders' liens, and indeed, none of the alternative proposals the Debtors were able to obtain for postpetition financing contemplated funding on an unsecured or junior priority basis. In addition, none of the alternative proposals that the Debtors were able to obtain for postpetition financing provided sufficient funding for the Debtors' anticipated needs on a basis that was as favorable as the proposed financing provided by the DIP Lenders, or were sufficiently certain to close or obtain Court approval. The Debtors firmly believe that the financing to be provided as contemplated by the DIP Credit Agreement represents the best financing available to them at this time, and warrants approval of the DIP Financing on an interim and final basis.

(iii) The Pre-Petition Lenders Are Adequately Protected

61. Pursuant to section 364(d)(1)(B) of the Bankruptcy Code, the Debtors' granting of the Priming Liens requires that there be adequate protection of the interests of the holder of the lien on the property of the estate on which the Priming Liens are proposed to be granted. 11 U.S.C. § 364(d)(1)(B). In addition, pursuant to sections 363(c)(2)(B) and (e) of the Bankruptcy Code, the Debtors' proposed use of Cash Collateral is conditioned upon providing adequate protection of an entity's interest in the Cash Collateral. 11 U.S.C. §§ 363(c)(2)(B), (e).

62. The Bankruptcy Code does not explicitly define "adequate protection." Section 361 of the Bankruptcy Code does, however, provide three nonexclusive examples of what may constitute "adequate protection" of an interest of an entity in property under sections 362, 363 or 364 of the Bankruptcy Code:

> (1) requiring the trustee to make a cash payment or periodic cash payments to such entity, to the extent that the...use...under section 363 of this title, or any grant of a lien under section 364 of this title...results in a decrease in the value of such entity's interest in such property;

(2) providing to such entity an additional or replacement lien to the extent that such...use...or grant results in a decrease in the value of such entity's interest in such property; or

(3) granting such other relief...as will result in the realization by such entity of the indubitable equivalent of such entity's interest in such property.

11 U.S.C. §361.

63. Similarly, the Bankruptcy Code does not expressly define the nature and extent of the "interest in property" of which a secured creditor is entitled to adequate protection under section 361, 363, and 364. However, the Bankruptcy Code plainly contemplates that a qualifying interest demands protection only to the extent that the use of the creditor's collateral will result in a decrease in "the value of such entity's interest in such property." See 11 U.S.C. § 361. Indeed, courts have repeatedly held that the purpose of adequate protection "is to safeguard the secured creditor from diminution in the value of its interest during the Chapter 11 reorganization." In re 495 Cent. Park Ave. Corp., 136 B.R. 626, 631 (Bankr. S.D.N.Y. 1992). See also In re Mosello, 195 B.R. 277, 288 (Bankr. S.D.N.Y. 1996) (same); Bank of New England v. BWL, Inc., 121 B.R. 413, 418 (D. Me. 1990) (same); In re Beker Indus. Corp., 58 B.R. 725, 736 (Bankr. S.D.N.Y. 1986) (the focus of adequate protection "is protection of the secured creditor from diminution in the value of its collateral during the reorganization process").

64. Thus, under applicable case law, the Prepetition Lenders are entitled to "adequate protection" against diminution in the value of their collective interest in the Debtors' property by reason of the use of Cash Collateral and granting of the Priming Liens. Where the value of the Prepetition Lenders' collateral is not diminishing by its use or by the granting of liens, the Prepetition Lenders' interests are adequately protected. See, e.g., United Saving Ass'n of Texas v. Timbers of Inwood Forest Assocs., Ltd., 484 U.S. 365, 372, 108 S. Ct. 626, 630

(1988); In re Forest Ridge, II, Ltd. Partnership, 116 B.R. 937 (Bankr. W.D.N.C. 1990); McCombs Properties VI, Ltd. v. First Texas Sav. Ass'n (In re McCombs Properties VI., Ltd.), 88 B.R. 261 (Bankr. C.D. Cal. 1988); Robert Neier v. Clark Oil & Ref. Corp. (In re Apex Oil Company), 85 B.R. 538 (Bankr. E.D. Mo. 1988); Bankers Life Ins. Co. v. Alyucan Interstate Corp. (In re Alyucan Interstate Corp.), 12 B.R. 803, 807-808 (Bankr. D. Utah 1981).

65. In the instant case, the Debtors have structured an adequate protection regime to protect the Prepetition Lenders for any diminution in the value of their interests that occurs as a result of the Debtors' use of Cash Collateral and the granting of the Priming Liens as follows:

- Periodic Cash Payments: current monthly payment of an amount equal to current interest and letter of credit fees (and the payment of all interest and fees that are accrued and unpaid as of the Petition Date) at the applicable non-default base rates plus the margin applicable as of the day immediately prior to the Petition Date as specified in the respective Prepetition Credit Facilities;[17]

- Superpriority Administrative Expense Claims: granting the Prepetition Lenders a superpriority claim against their particular borrowers and guarantors under the respective Prepetition Credit Facilities pursuant to section 507(b) of the Bankruptcy Code, which superpriority claim shall be immediately junior to the claims granted under section 364(c)(1) of the Bankruptcy Code to the Collateral Agent and the Intercompany Liens;

- Replacement Liens: granting the Prepetition Lenders replacement liens on the current and future assets of their particular borrowers under the respective Prepetition Credit Facilities (including without limitation any Non-Group Intercompany Debt owed to a Borrower or Guarantor and the Intercompany Liens of such Borrower against other Borrowers or Guarantors), which replacement liens shall be immediately junior to the Priming Liens and the other liens to be granted in favor of the Collateral Agent and the Intercompany Liens;

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[17] As additional adequate protection in consideration of the agreement of the Prepetition Lenders under the Frontier Credit Agreement to consent to the priming of their liens on substantially all of the assets of the borrowers and guarantors under the Frontier Credit Agreement, as well as their agreement to consent to the use of Cash Collateral, the Debtors propose to make periodic cash payments to the Prepetition Lenders under the Frontier Credit Agreement at the applicable non-default rate plus 40 basis points.

- Payment of Reasonable Fees and Expenses: payment on a current basis of the reasonable fees and expenses (including, without limitation, the reasonable fees and disbursements of counsel and internal and third-party consultants, including financial consultants and auditors) incurred by the respective agents under the Prepetition Credit Facilities (including any accrued and unpaid prepetition fees and expenses) and the payment on a current basis of the administration fees payable under the respective Prepetition Credit Facilities; and

- Financial Reporting: receipt by the respective agents under the Prepetition Credit Facilities of copies of financial reports provided to the DIP Agents under the DIP Credit Agreement.

66. The DIP Credit Agreement further provides that so long as there are any borrowings or letters of credit outstanding, or the commitments under the Loan Documents are in effect, the Prepetition Lenders shall not be permitted to take any action in the Bankruptcy Court or otherwise to exercise any remedies in respect of their adequate protection claims or liens; provided, that the foregoing shall not prevent the Prepetition Lenders from seeking additional adequate protection or modification thereof or seeking the termination of the use of Cash Collateral upon the occurrence and during the continuance of any event of default under the Loan Documents as long as such additional adequate protection shall at all times be subject and junior to the claims and liens securing the DIP Financing.

67. As additional adequate protection to the Prepetition Lenders, the Debtors will implement the Cash Management Protocol.

68. Subject to the provision of the forms of adequate protection described above and set forth in the DIP Credit Agreement, the Interim Order and the Final Order, the Debtors believe that the interests of the Prepetition Lenders are adequately protected.

(iv) Fairness of Terms of Postpetition Financing

69. The fairness and reasonableness of the terms of the proposed DIP Financing are manifest and reflect the exercise of the Debtors' sound business judgment. The

Debtors believe that the terms and conditions of the DIP Financing, including the fees payable thereunder, are, based upon the Debtors' analysis of comparable DIP Financing packages, "market" considering the extent and complexity of the outstanding secured and unsecured indebtedness owing by the Debtors, the extreme time constraints faced by the Debtors in light of their liquidity problems, and the announcements and disclosures contained in the SEC Filings and Press Releases. Indeed, the DIP Financing is being made available to the Debtors notwithstanding that: (i) the DIP Lenders have only had an opportunity to perform limited due diligence; (ii) the Debtors do not currently have recent audited financial statements; (iii) the DIP Credit Agreement contains limitations with respect to standard representations and warranties; and (iv) the structure of the DIP Financing is highly atypical.

70. Under these circumstances, this Court should give deference to the business judgment of these Debtors in determining their credit needs, the proposed use of funds and the terms and conditions under which the DIP Financing is being made available to the Debtors. As the court noted in Ames, 115 B.R. at 40, "[A] court's discretion under section 364 is to be utilized on grounds that permit reasonable business judgment to be exercised so long as the financing agreement does not contain terms that leverage the bankruptcy process and powers or its purpose is not so much to benefit the estate as it is to benefit a party-in-interest." See also In re Simasko Prod. Co., 47 B.R. 444, 449 (Bankr. D. Colo. 1985) ("[O]nly in circumstances where there are allegations of, and a real potential for, abuse by corporate insiders should the Court scrutinize the actions of the corporation"). Accordingly, the Debtors submit that the incurrence of the DIP Financing and the contemplated treatment of the obligations in respect thereof as set forth in the DIP Credit Agreement are authorized under sections 364(c) and (d) of the Bankruptcy Code, and are within the reasonable business judgment of the Debtors.